

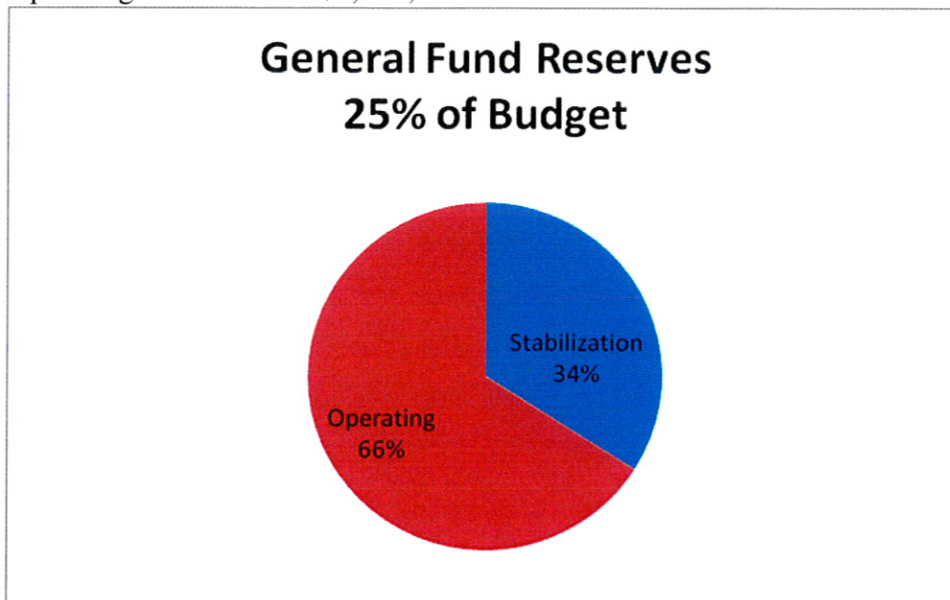
**CITY OF GULF SHORES  
FINANCIAL POLICIES  
FEBRUARY 2010**

**FINANCIAL PLANNING POLICIES**

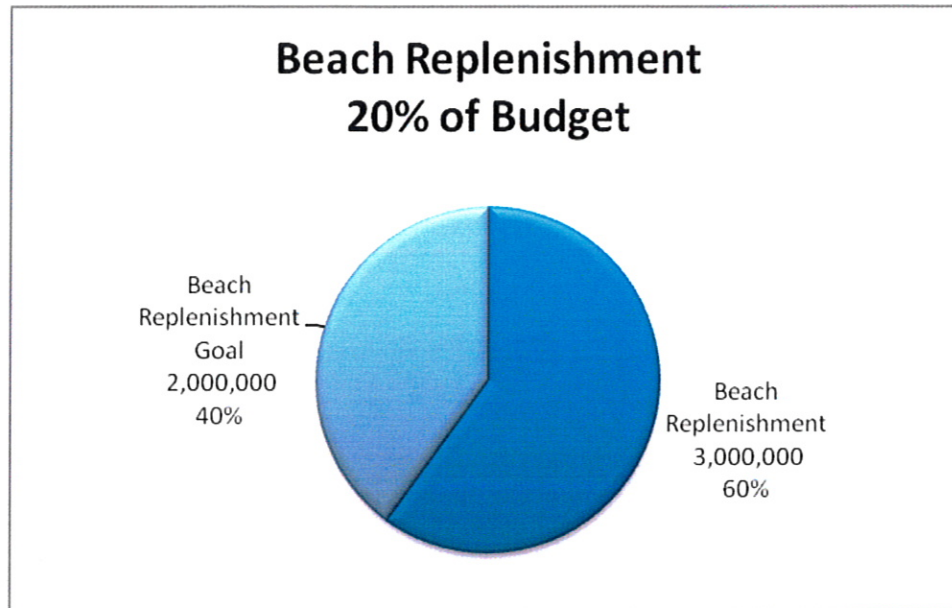
**Fund Balance Reserve Account – Stabilization Funds**

The City of Gulf Shores will build through prudent financial management a cash reserve equal to twenty-five per cent of the General Fund Operating Budget. The General Fund Stabilization Reserve will enable the city to withstand fluctuations in tourism revenue streams related to the nearby travel industry and provide a stabilized fiscal environment to maintain and enhance bond ratings allowing the city to borrow at competitive rates. Of the twenty-five per cent General Fund reserves, two-thirds will be maintained as an Operating Reserve to enable the City to continue operations in the event of an emergency or disaster until other funds may be received.

The City of Gulf Shores will maintain risk management reserves to provide for liabilities incurred for workers' compensation claims, other retained employee benefits, and claims not otherwise addressed in this policy statement. It is the policy of the City to maintain a General Fund Reserve at a minimum of 15% of General Fund Expenditures with a target of 25% of General Fund Expenditures in order to offset fluctuations in revenue streams related to the tourist industry. Additionally, the General fund balance protects the City from having to reduce service levels or raise taxes and fees due to temporary revenue shortfalls, economic downturns or unpredicted one-time expenditures for emergencies or disasters. For 2010 the total General Fund Reserves target is \$6,250,000, equivalent to twenty-five percent of a \$25,000,000 budget. Currently there are \$4,125,000 in Operating Reserves and \$2,125,000 in Stabilization Funds.



A Beach Replenishment Reserve Fund target of twenty-percent of the General Fund budget for 2010 would be five million. Currently \$3,000,000 is in the General Fund (Emergency Public Safety Reserves). An additional \$2,000,000 will be added to the Beach Replenishment Reserve Fund as the funds can be designated.



#### **Operating/Capital Expenditure Accountability**

Actual expenditures to budget are compared on a monthly basis. The City Council Finance Committee receives a summary report of revenues and expenditures compared to budget and the City Administrator receives a detailed report quarterly. Department heads are responsible for monitoring their own division(s) budget(s) and should notify the City Administrator should their departments be in jeopardy of overspending budgeted funds. Justification may be made or, due to unforeseen emergencies/contingencies, amendments to the budget will be prepared for City Council consideration. Departmental heads with budgets overspent at the end of the year will be counseled by the City Administrator to take action to prevent future over-expenditures from occurring. The City Administrator informs the Council of measures taken by the departments.

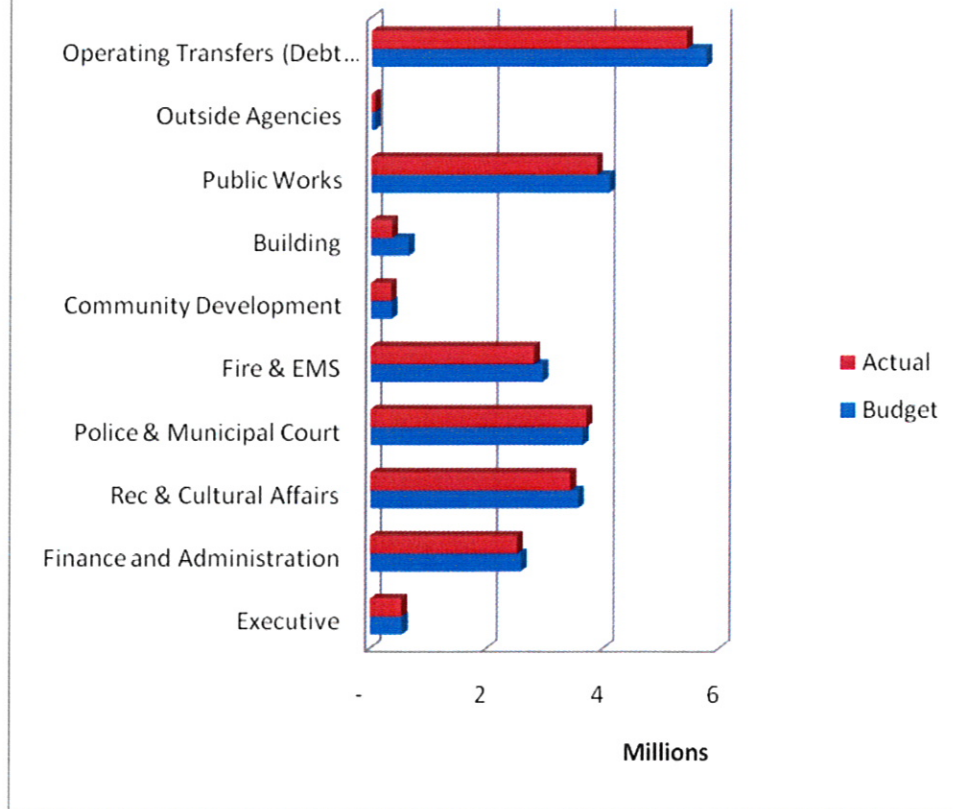
The City of Gulf Shores major expenditures for the most recent fiscal year distribution by category are: Public Safety (Police, Fire and Court) 28% of expenditures; Operating Transfers for Debt Service at 23%; Public Works at 17%; Recreation and Cultural Affairs 15%; and City Hall (Executive, Finance and Administration) at 13%. Building and Community Development comprise 2% of General Fund expense.

The following table and graph are expenditures by category compared to budget for the most recent fiscal year.

### General Fund Departmental Budget to Actual 2009

|                                    | Budget     | Actual     | % of total |
|------------------------------------|------------|------------|------------|
| Executive                          | 548,640    | 539,886    | 2%         |
| Finance and Administration         | 2,595,840  | 2,530,653  | 11%        |
| Rec & Cultural Affairs             | 3,568,240  | 3,440,117  | 15%        |
| Police & Municipal Court           | 3,643,590  | 3,712,077  | 16%        |
| Fire & EMS                         | 2,955,650  | 2,812,996  | 12%        |
| Community Development              | 360,070    | 349,747    | 2%         |
| Building                           | 652,310    | 364,808    | 2%         |
| Public Works                       | 4,087,870  | 3,876,132  | 17%        |
| Outside Agencies                   | 61,000     | 61,000     | 0%         |
| Operating Transfers (Debt Service) | 5,754,990  | 5,419,108  | 23%        |
| Total                              | 24,228,200 | 23,106,524 |            |

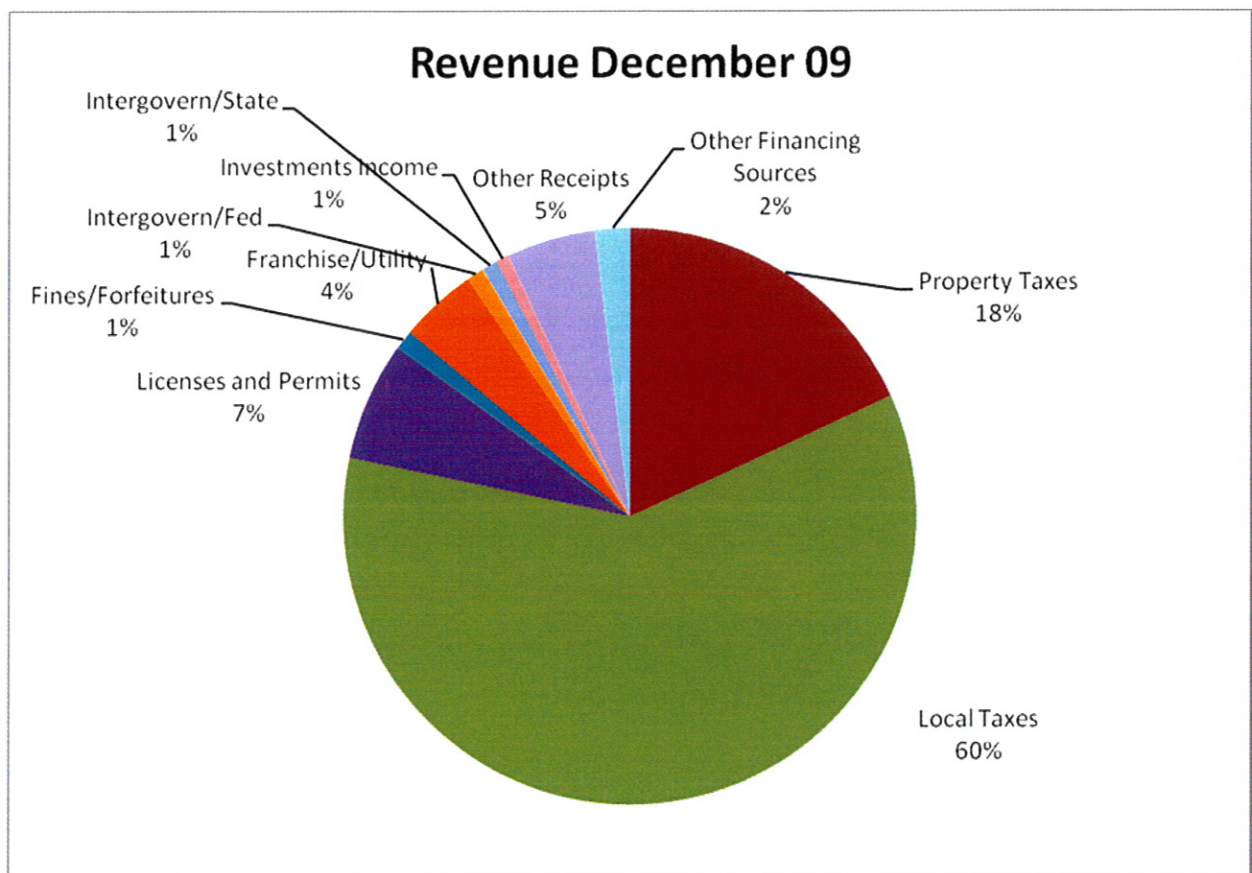
### General Fund Departmental Budget to Actual 2009



## **REVENUE POLICIES**

### **Revenue Diversification**

The City of Gulf Shores has a wide variety of revenue streams that fund City General and other operations. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other fund accounts. Property taxes comprise approximately eighteen per cent of General fund revenues. Local Taxes are about sixty-two per cent of General Fund Revenues. Licenses and Permits are roughly seven per cent of General Fund Revenues and Investment Income accounts for another one to two percent of General Fund Revenues. Other City tax revenues include Fines/Forfeiture at one per cent; Business License Fees at six per cent; Intergovernmental Income at two per cent; and Other Receipts/Financing Sources at seven per cent. The City of Gulf Shores is heavily dependent on local taxes primarily from tourism as the main source of revenue. If a downturn is experienced in one area, contingency plans will be implemented to reduce revenues and increase transfers from permissible funding sources until funding levels have stabilized. The graph that follows shows revenue collections by type for the most recent fiscal year.



The City of Gulf Shores has no other major governmental funds other than the General Fund.

The City of Gulf Shores has no major enterprise funds. Two non-major governmental funds exist for the City of Gulf Shores: special revenue and capital projects funds. The impact fees special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes. The capital projects funds account for the acquisition and construction of major capital facilities other than those financed by the general fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Fees and Charges**

Inspection, Recreation, Police Fees and Charges are implemented to help offset the burden to the General Fund for services provided. Building Inspection Fees and Permits have been gradually increased in recent years in order to bring the City more up-to-date with neighboring jurisdictions fees and permit charges. Recreation fees are collected to help offset staff and operating expenses. Other fees are charged as permissible by state statute to cover copy and employee expenses.

## **EXPENDITURE POLICIES**

### **Debt Capacity, Issuance, and Management**

There are currently debt service payments in the General Fund Budget for General Obligation Bonds currently outstanding. There is a statutory or charter debt limitation on the amount of General Obligation Bonds which could, upon voter approval, be issued in the future. Future bond issues will rely on dedicated revenue streams from the project itself to cover. The City will utilize various excise taxes and sources other than property taxed to make such contract payments.

Bond issues should, generally, be scheduled to level annual debt service requirements so that cash flow requirements are generally level and borrowing costs are minimized. The City will constantly seek to maintain and improve its municipal bond ratings issued by the appropriate nationally recognized rating agencies in New York City. With each bond offering and annually as required, the City will disclose its financial position and fiscal management policies to such rating agencies and the applicable municipal bond insurance companies.

A summary of the City's bond ratings for outstanding long-term General Obligations (G.O.) is as follows:

| <b><u>BOND RATING</u></b> |                      |                |
|---------------------------|----------------------|----------------|
|                           | <b>Final Payment</b> | <b>Moody's</b> |
| 1998-A G.O. Warrant       | 11/15/2012           | *              |
| 2000-B G.O. Warrant       | 11/15/2015           | Aaa/A1         |
| 2002-G G.O. Warrant       | 9/30/2014            | Aaa            |
| 2003-C G.O. Warrant       | 7/1/2013             | Aaa            |

|                      | <b>Final Payment</b> | <b>Moody's</b> |
|----------------------|----------------------|----------------|
| 2004 G.O. Warrant    | 8/1/2021             | Aaa            |
| 2005-B G.O. Warrant  | 8/10/2010            | *              |
| 2005-C G.O. Warrant  | 12/15/2015           | Aaa/A1         |
| 2006-A G.O. Warrant  | 12/15/2017           | Aaa/A1         |
| 2006-B G.O. Warrant  | 12/15/2025           | Aaa/A1         |
| 2008-A G.O. Warrant  | 12/15/2028           | Aaa/A1         |
| 2008-B G. O. Warrant | 5/15/2011            |                |

\*Not rated

**Debt Capacity**

The Constitution of Alabama provides that municipalities having a population of 6,000 or less may not become indebted in an amount in excess of twenty percent (20%) of the assessed value of the property situated therein, except for the construction of or purchase of waterworks, gas or electric lighting plants or sewerage, or for the improvement of streets, for which purposes an additional indebtedness not exceeding three percentum may be created; provided this limitation does not affect (a) temporary loans to be paid within one year, made in anticipation of the collection of taxes, not exceeding one-fourth of the annual revenues of the city, (b) indebtedness incurred for the purpose of acquiring, providing or constructing sanitary or storm water sewers or street or sidewalk improvements, the cost of which, in whole or part, is to be assessed against the property drained, served or benefited by such sewers or abutting such improvements or (c) indebtedness incurred for the purpose of acquiring, providing or constructing school houses, provided that there shall be pledged for payment of the principal of and interest on such obligations a tax which the governing body of such municipality, shall have determined, upon the basis of the revenues from such tax, will be sufficient to pay said principal of and interest at their respective maturities. Additionally, the chargeable indebtedness is, under State law, reduced by the amount of sinking funds held for payment thereof.

The total assessed value of the property according to the Baldwin County Revenue Commissioner's Office in the City as assessed for City taxation for December 31, 2009 was \$653,336,040 resulting in a debt limit of \$127,067,208.

The City's total principal amount of indebtedness at December 31, 2009 was \$51,126,031. Based on the debt limit of \$127,067,208, the City could hereafter issue up to approximately \$75,941,177 of indebtedness, subject to the constitutional debt limitation. The maximum indebtedness subject to the constitutional debt limitation will increase (or decrease) with any corresponding increase (or decrease) in the assessed valuation of the City. Based on the 2000 population of the City of 5,044 the annual G.O. Debt per capita for outstanding debt is \$10,136.

**Use of One-time and Unpredictable Revenues**

Revenues that are unique to a particular year and considered one-time are not used for ongoing expenditures. Rather, the income is restored to the General Fund balance to cover any potential future revenue shortfalls. Only major revenue sources that are steady in nature and non-fluctuating are used for budgetary purposes.

**Balanced Budget**

The City of Gulf Shores will finance all current on-going expenditures with current recurring revenues. One-time revenue can be used to increase the undesignated fund balance or be used for one-time expenses without impacting service levels. The City of Gulf Shores makes every effort to avoid budgetary procedures that balance current expenditures through the obligation of future resources. Any year-end surplus should be directed to the undesignated fund balance and not be used to finance recurring expenses in the following fiscal year. All unencumbered operating budget appropriations lapse at year-end. Should it be determined that actual revenues may be less than the adopted budget, the elected body will be notified immediately, procedures put in place to reduce expenditures and a plan implemented to cover the potential loss in revenues. The elected body will also be notified if a deviation from a balanced operating budget is planned.

All Operating Funds are adopted during the annual budget process. Total anticipated revenues and other funding sources available must equal total estimated expenditures for each fund. The legal level of budgetary control is the department level, with the Council being the only body authorized to make amendments to the budget. Revisions that alter the total expenditures of any department or fund must be approved by the Mayor and City Council. Budgets for the governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the General Fund, each Special Revenue Fund and each Enterprise Fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**Budget Policies**

Expenditures may not exceed the total budget for any department within a fund. Department heads and management personnel are directed to operate within budget limitations. Transfers between departments or funds or an increase in departmental appropriations or authorized positions shall require the approval of the elected body.

Enterprise Fund budgets will be self supporting. Rates charged within such Enterprise budgets will be examined annually to determine their self sufficiency. Every effort will be made to plan for long term price adjustments by suppliers of goods and services to the Enterprise funds.

The City of Gulf Shores will maintain a budgetary control system and will prepare on a monthly basis a summary report comparing actual revenues, expenditures and encumbrances with budgeted amounts.

The City of Gulf Shores will comply with all state laws applicable to budget hearings, public notices, public inspections, and budget adoption.

## **LONG-RANGE PLANNING**

### **Capital Improvements**

The operating budget will provide for adequate maintenance of capital equipment and facilities. Capital improvements should be financed from current revenues, but may be financed by debt instruments that provide for a pay back period that does not exceed the life of the improvement. Once the City has borrowed for such improvements, debt service becomes a current expense to be covered by recurring revenue.

A five year Capital Improvement Plan for Capital Outlay expenditures greater than \$5,000 will be submitted by each department during the budget process. A five year Capital Improvement Program that determines the cash needs for Capital Projects will be submitted to the Planning Commission and the elected body for approval to determine cash future cash needs. Once the five year Capital Improvement Program is adopted by the elected body, every effort will be made to budget for capital expenditures within the outlined program. Modifications to the Capital Improvement Program will be submitted to the elected body on an annual basis.

The City will seek public and private grants, and other sources of revenue to fund projects included in the Capital Improvement Program.

### **Cash Management Policy**

Funds for day to day operations, payroll, accounts payable and other immediate cash needs are maintained in Depository accounts. Holding accounts are maintained for investments not needed on an immediate basis. Maturity scheduling is timed according to anticipated needs. Maturity limitations depend on whether the funds being invested are considered short or long term funds.

### **Cash and Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City of Gulf Shores considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

### **Deposits and Investments**

State statutes authorize the City to invest in obligations of the U.S. Government and agencies of corporations of the U.S. Government; obligations of any state; obligations of any political subdivision of any state; certificates of deposit or time deposits of any national state bank or savings and loan which have deposits insured by the FDIC or FSLIC; prime bankers acceptances; and repurchase agreements.

Deposits are insured by the FDIC up to \$250,000 through December 31, 2013. Funds in excess of \$250,000 are secured by the Alabama State Treasurer's Security for Alabama Funds (SAFE) Program, or are invested in Treasury Notes and/or Bills which are direct obligations of the United States and are not required to be secured by the FDIC or the SAFE Program.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

#### **Short-Term Interfund Receivables/Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### **ASSET INVENTORY**

On an annual basis all major capital assets are inventoried and the condition of the asset is assessed. Inventory is valued at cost, using the first-in, first-out method. The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased. Prepaid items are accounted for using the consumption method. A prepaid item is recognized when a cash expenditure is made for goods or services that were purchased for consumption, but not consumed as of December 31.

Capital Asset schedules are prepared for the Comprehensive Annual Financial Report with the disposition of acquired or disposed of assets noted along with depreciation schedules for major capital items. The City of Gulf Shores undertakes and maintains an on-going viable Capital Outlay Program yearly because these costs in total are usually the heaviest in any budget document and the ongoing financial commitment is required to maximize the public's benefit. Proper scheduling of Capital Outlay, as well as levelized appropriation (i.e., an equal dollar allocation each fiscal year), prevents excessive costs in any one budget year. Capital Outlay appropriations help to maintain the current level of service, updates equipment/service standards and needs, and increases productivity in the work assignment areas.